



Minutes of the Commission Meeting
Lawrence & Schiller Production Center, Sioux Falls
December 10, 2015

Chairman Turbiville called the Dec. 10, 2015, meeting of the South Dakota Lottery Commission to order at 10:00 a.m.

MEMBERS PRESENT: Jim Putnam, Chuck Turbiville, Doyle Estes, Roger Novotny, and Bob Hartford were present.

MEMBER ABSENT: Jim Towler and Brent Dykstra were absent.

SUPPORT STAFF PRESENT: Secretary Andy Gerlach, Deputy Secretary David Wiest, Norm Lingle, Clark Hepper, Joe Willingham, John Keyes, Kelly Thompson, Starla Volk, Dan Sahr, Sherry Lauseng, Andrew Fergel, Jennifer Baker and Robyn Seibel were present.

APPROVAL OF THE AGENDA

Commissioner Putnam moved that the agenda be approved. Commissioner Novotny seconded. Roll was called: Aye – Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

APPROVAL OF SEPTEMBER 17, 2015 COMMISSION MEETING MINUTES

Commissioner Estes moved that the minutes be approved. Commissioner Hartford seconded. Roll was called: Aye – Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

APPROVAL OF DECEMBER 1, 2015 COMMISSION MEETING MINUTES

Commissioner Hartford moved that the minutes be approved. Commissioner Estes seconded. Roll was called: Aye – Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

EXECUTIVE DIRECTOR'S COMMENTS

Executive Director Norm Lingle reported on the following:

Executive Director Lingle welcomed everyone to Sioux Falls and asked for feedback regarding the Commission's interest in holding meetings in different areas across the state.

On Dec. 9 an estimated \$4.46 million Hot Lotto jackpot was won in Rapid City. The Hot Lotto game is a taxes paid jackpot so the winner will walk away with more than the estimated jackpot.

The Department of Legislative Audit completed the Lottery's fiscal year 2015's (FY2015) audit with no findings. Lottery has gone over 20 years with no findings in their audit.

In November Lottery worked with International Game Technologies (IGT), who put together a research team that came to South Dakota, making visits to roughly 70 retailers along I-90 and Hwy. 14. The Lottery provided IGT with instant ticket data which was used to rate South Dakota's current game market. On Dec. 8 the Lottery received a report on IGT's findings regarding instant tickets which included five recommendations - consistent product offerings, leveraging families of games, leveraging extended play games, developing a consistent launch schedule, and prize structures. Lottery will be working on a plan to implement these recommendations and is looking forward to receiving IGT's feedback from the on-site visits. There are plans to work with retailers to better position products and to get suggestions for Lottery sales representatives and store clerks to improve sales. This information along with the information gathered by Lawrence & Schiller (L&S) will help plan for Lottery's future.

There was an article on the smoking ban in the Argus Leader in late Sept. with a follow up article on Dec. 10. The Lottery worked with the establishments in question to clarify its view on smoke shops, video lottery terminals, and overall video lottery establishments. The Lottery is being proactive and would welcome feedback from Commissioners on the topic.

Turbiville stated that Lottery worked with an establishment that wasn't following along with the smoking ban and they made changes and are now in compliance. Lingle said that Lottery staff has stopped into the establishment and they are still in compliance.

In early November Chairman Turbiville, Commissioner Estes, Director Lingle, and Deputy Executive Director Hepper met with Rapid City police to discuss burglaries of video lottery establishments. The Lottery will work with them to develop a list of best practices to be implemented by establishments to deter burglaries. Chairman Turbiville said burglaries continue to be a problem, and it is fortunate that no one has been injured or worse. Lottery needs to come up with a plan to make establishments as convenient, fun, welcoming, and safe as possible. Commissioner Estes believes partnering with law enforcement shows that there is a common goal. He suggested the lottery come up with regulations for establishments. Turbiville suggested a security professional look at video lottery establishments to recommend some security requirements. Novotny felt the lottery should start with a list of recommendations for best practice – then later come up with regulations if need be.

Novotny motioned to have Lottery officials look into security recommendations and bring their findings to the Jan. 7 meeting. Estes seconded. Roll was called: Aye –Estes, Hartford, Novotny, Putnam, and Turbiville. Motion carried.

The new Sioux Falls office is progressing with work currently being done to re-face the exterior. March 1st is the target move in date.

STRATEGIC PLAN UPDATE

Deputy Executive Director Clark Hepper reported on the following:

The manufacturer's product performance information is considered proprietary, so manufacturers were asked to sign a legal agreement to share performance data with other manufacturers and machine operators. Giving the operators information on which machines are performing best in our market allows them to make educated decisions, and will also help increase net machine income (NMI). Manufacturers who have signed the agreement will be able to see one another's data. A link is posted monthly to the Lottery's website showing the number of terminals, NMI per terminal, NMI per month, and NMI per year to date. Three of five licensed manufacturers- IGT, GTECH/Spielo, and Grand Vision Gaming- signed the agreement.

Hepper discussed the IP cellular pilot testing project. IP cellular is the next step in moving toward real time communication which would give Lottery the ability to offer progressives and newer terminals. The pilot project will see if an upgrade to IP cellular will offer better performance. Testing will start March 1 and include 10-12 locations across the state – covering all types of terminals in all areas of the state – with a 90 day trial period to obtain information. There are two cellular networks in the state – Lottery will work with one first and then expand into the other to ensure both will work with the system. The objective is to validate that IP cellular communication will better serve the video lottery system and prepare the Lottery to move forward with future initiatives.

Commissioner Estes asked if the three operators sharing information were similar. Hepper replied that the top two were in the same range, but the third has room to improve. Estes wondered if this information was shared with operators. Hepper responded that the information was shared with operators in the *Video Lottery Newsletter* and is available on the Lottery's website.

Novotny wondered if South Dakota (SD) is the first state to go down the IP cellular path. Hepper replied that currently there are other states using IP cellular, including Illinois. Lingle added that North Dakota is using IP cellular for lotto terminals and they haven't had issues.

LAWRENCE & SCHILLER MARKET RESEARCH RESULTS

Tracy Saathoff and Sam Gotham reported on the following:

Lawrence & Schiller (L&S) collaborated with SD Lottery to identify current lottery players, learn more about the variety and frequency of play, and understand current perceptions of the Lottery. To gather information, a three part research study was conducted from Sept. – Nov. 2015.

Phase 1 utilized a quantitative behavior and motivation survey given online and through the mail to identify who's playing the Lottery, what games, how often, when, and why. Over 1,700 people completed the survey, offering a wide range in age, income, and geographic location. L&S then divided the participants into active (have played in last 6 months) and lapsed players (have not played in last 6 months).

Phase 2 used focus groups to identify the Lottery's image (brand perception) and game play experience with scratch, lotto and video lottery. To gather the qualitative portion of brand perceptions, L&S hosted nine focus groups with SD residents and nine one-on-one interviews with lottery retailers and establishments. Interviews and groups were spread throughout the region to avoid regional bias. Focus group participants were also segmented into frequent (play at least a couple of times a month) and infrequent (divided into young and mature and play every few months or not at all) player groups to monitor differences in player opinions and behaviors. In total, L&S conducted nine focus groups with 64 participants (20 frequent and 44 infrequent players). A wide variety of topics related to perception and play experience were covered in the focus groups, such as first impressions, motivations for playing, play experiences, message testing, and SD Lottery attribute testing. Activities and discussions were used throughout the groups to solicit feedback three ways -verbally, through individual workbook writings, and in-group activities using sticky notes.

LOTTERY TRENDS – Since the recession in 2008, lottery revenue to the state has been decreasing, but that is consistent with what has been happening with other state lotteries. Some of the challenges facing Lottery include competition from tribal casinos, Deadwood casinos, and sports betting, as well as the operational costs of video lottery (cost is high to bring in new games). The goal for 2016 is to increase Lottery revenue to the state by 5% over 2015. To reach that goal, more residents need to be encouraged to play lottery games. It helps that a majority of residents are familiar with the games and have played them in the past, but a considerable percent of non-Players Club members play infrequently. This means there is an opportunity to increase the number of times residents play each game, if given an incentive or reason to do so. Influencing a behavior change involves a combination of image/perceptions, experience, and opinions.

SD LOTTERY IMAGE – In the Behavior & Motivations Survey, L&S found most participants had a neutral opinion of the SD Lottery and positive impressions of both scratch tickets and lotto games. The opinion of those who haven't played the lottery within the last six months was slightly more negative, but there was a much higher percentage of neutral opinions as well.

The first impressions activity asked focus group participants what came to mind when thinking about scratch tickets, lotto games, video lottery, sports betting, Native American casinos, and Deadwood casinos. Participants wrote their thoughts on sticky notes and added them to the various categories. The Lottery is different than its competitors because it is made up of three games and each contributes to the overall perception of the Lottery. Each game also has its own brand, which influences individual players to purchase/play the game.

FIRST IMPRESSIONS OF SCRATCH TICKETS

- Gifts/stocking stuffers – fun to give
- Variety of options (possibly too many)
- Fun/Playful
- Social – play them with others
- Impulse buy
- 40% of first impressions were positive

FIRST IMPRESSIONS OF LOTTO GAMES

- Big money, big odds, big chances
- Buzz - big jackpots prompt buying tickets
- Rags to Riches - fun to imagine winning
- Groups - brings excitement and entertainment in the anticipation and discussion
- 37% of first impressions were positive

Why play? Infrequent players play when jackpots are high or the office is playing and they don't want to be left out. Plus they like to dream about what they'd do with their winnings.

FIRST IMPRESSIONS OF VIDEO LOTTERY

- Environment - smoky bar, dark and grubby, not a nice environment
- Addiction
- Accessible – lots of places to play
- 15% of first impressions were positive

Why play? – Frequent players find it a relaxing and quiet way to unwind. Infrequent players assume that people play because they're addicted. Young players play because it's ironic and available.

L&S found perceptions of tribal casinos, Deadwood casinos, and sports betting were more positive than that of video lottery because they offer a fun environment with food and entertainment. Participants felt they were getting something out of it even if they didn't win.

L&S asked lapsed players what prevents them from playing - 51% said it costs too much, 51% said the chances of winning are poor, 26% had no interest, and 6% didn't want to become addicted.

34% of focus group participants said playing Lottery isn't entertaining, because fun is defined as winning and that is rare.

LOTTERY'S IMAGE CHALLENGES

- Games are short
- No winners
- Takes advantage
- Lacks benefits
- Incites judgement

INFLUENCING BEHAVIOR MOVING FORWARD

L&S asked participants if they'd like to play more; nearly 50% of survey respondents said they'd consider playing more.

To gather information on what sort of messaging resonates with consumers, L&S had participants watch Lottery commercials from: Colorado about taking a chance, Minnesota about a new scratch ticket, South Dakota about money going to good causes, and Oregon about playing responsibly. 63% of participants gave Oregon's advertising message an eight, nine, or ten on a scale of one to ten. Respondents found the Oregon ad relatable and liked that it showed ways to play responsibly. Authenticity goes a long way with young consumers. The Oregon ad didn't make them go out and play immediately, but it gave them a better feeling about the Lottery. Respondents found the SD Lottery ad appealing and liked the cause, but were skeptical of the claims.

Next, participants were asked to put the following statements in order of most to least appealing:

- SD Lottery pays nearly \$100 Million into the general fund, supporting education and Medicaid
- Playing the Lottery can make dreams come true
- On average the Lottery pays out over a million dollars per day in prizes
- Scratch tickets or video lottery is an affordable alternative form of entertainment
- SD Lottery always encourages people to gamble responsibly

Participants found the statement about the general fund the most appealing, saying it's a good cause, but surprising, unspecific, and unbelievable. Participants struggled with the idea of the General Fund, saying it seemed like the money could be used for things the public doesn't know about.

The appeal of dreams received the second highest score, but participants found the statement polarizing – 41% ranked it #1 or #2 because it elicits ideas of hope and possibility, but 44% ranked it #4 or #5 because realists felt it wouldn't happen to them.

The statement that Lottery gives away \$1 million per day in prizes elicited feelings of surprise and intrigue, but also disbelief and doubt.

The gambling responsibly statement was viewed as a true statement, but just a disclaimer. Participants felt it could be promoted more.

L&S also took a survey asking which statements made participants want to play more lottery games. Statements about winning a lot of money and their life changing for the better were better motivators than statements about contributing to SD programs and the thrill and excitement of playing. L&S recommends reinforcing that Lottery is fun, entertaining, social, and responsible, full of big winners, and benefits the state.

Commissioner Putnam wondered if gender had anything to do with outcomes. L&S said they heard both types of responses from both genders.

Commissioner Novotny asked whether neutral was tending toward negative or positive. L&S answered that they used an expanded scale, offering favorable, somewhat favorable, neutral, somewhat unfavorable, and unfavorable, so the neutrals can be viewed as undecided or truly neutral.

Commissioner Putnam wondered if lottery money is perceived as not going to education, and if the general fund isn't specific enough. L&S replied that respondents remember being told that funds were supposed to go to education, but don't feel that it's true. Secretary Gerlach stated he felt the perception of tribal casinos is better because players are confident the money goes to help the tribe.

WHAT'S NEXT?

L&S used a tier approach to describe their marketing strategy.

TIER 1 – Evolve the image of SD Lottery

L&S recommended sending the message that SD Lottery wants to make the state a better place to live for everyone. It's all good fun and it provides a vital source of revenue with a few smiles along the way.

TIER 2 – Drive revenue in all 3 areas – scratch tickets, lotto games, and video lottery

SCRATCH TICKETS

L&S recommended Lottery leverage the idea that scratch tickets are quick, easy, competitive, fun, playful, great gifts, and social. They suggested the Lottery improve convenience, promote scratch packs, and simplify the selection.

LOTTO TICKETS

L&S would like Lotto's image to be social, event-driven, buzz worthy, and dream inducing. They suggested the promotion of jackpots, creation of buzz worthy events, and featuring SD-only games as areas to improve upon.

VIDEO LOTTERY

L&S recommended promoting an image of video lottery as relaxing, convenient, entertaining, and social. They felt Lottery could improve upon its promotion of responsible play and efforts to help with addiction, as well as making operational and game style improvements.

TIER 3 – Special promotions, seasonal blitzes, players club

NEXT STEPS

Brand Identity Development – December

Image Campaign – February

Scratch/Lotto/Video Lottery Campaigns - Upcoming

Commissioner Novotny asked how the success of the ad campaign would be measured. L&S responded that they will use the information gathered this year and send out a survey next year to compare.

Commissioner Estes wondered how SD Lottery's revenue over the years compared to that of Deadwood and tribal casinos. L&S replied that Lottery still had the largest piece of the pie, but they'd need to look into how it's trended over the years.

Commissioner Putnam felt that Deadwood and tribal casinos benefited from being able to make changes and improvements without going through legislation.

Commissioner Estes felt gamers were interested in more exciting play in Deadwood and tribal casinos and is concerned about the perception of video lottery.

Director Lingle remarked that the last time any research was done was 2008 and he feels research should be an annual part of the business plan going forward.

Commissioner Novotny wondered if L&S noticed any regional differences in their research. L&S said the western portion of the state had more input on Deadwood gaming, but the general perception of Lottery was consistent across the state.

A 10 minute break was taken.

INTERNATIONAL GAME TECHNOLOGY (IGT) REMARKS

Richard Wheeler reported on the following:

On April 7, 2015, GTECH, the largest global lottery business and IGT, world leader in gaming equipment, merged to create the world's leading end-to-end gaming company. IGT provides gaming systems/machines, retail gaming, draw based games, instant tickets, lottery self-service, interactive gaming, iGaming, iLottery, new media, and sports betting. They have contracts with 40 of the 45 state lotteries.

Wheeler said IGT tracks gaming trends and spends a lot of time and money on research and development to ensure the customers gaming experience is convenient and enjoyable.

Wheeler says IGT's three priorities are security and integrity of the Lottery, operational excellence, and helping grow sales. They recently had a team traveling across SD checking in on retailers to determine if there are ways to improve upon its services. They also work with North American Association of State and Provincial Lotteries (NASPL) and World Lottery Association (WLA) on responsible gaming.

IGT has been the online lottery vendor for SD Lottery since 2009 and serves 615 retailers. They are also video lottery machine and content providers, with 100 IGT, 1300 Spielo, and 6,300 VLC machines in SD (all under the IGT umbrella).

IGT also prints instant tickets and has responded to the request for information (RFI) that SD Lottery put out.

Commissioner Estes asked if IGT had 7,700 of the nearly 10,000 licensed video lottery machines across the state. Wheeler responded in the affirmative.

VIDEO LOTTERY REPORT

Director of Video Lottery and Security Robyn Seibel reported on the following:

Seibel reported NMI for FY2016 was \$83.45 million versus \$79.79 million in FY2015, 4.55% ahead of the previous year.

Looking at terminals, there are currently 8,915 terminals which is .52% down from FY2015's 8,962 terminals.

The number of establishments was 1,352, which is down 2.73% from the 1,390 the previous year.

The revenue projections through the end of November show \$102.87 million and in FY2015 it was \$98.29 million.

Seibel reported that a request for proposal (RFP) for testing services will be going out in 2016. The Lottery's contract with GLI will end in July 2016. A draft RFP will be set up by Feb. 2016 and brought to the Commission in June.

PUBLIC RELATIONS/ADVERTISING REPORT

Director of Advertising and Public Relations Kelly Thompson reported on the following:

BIG WINNERS (SINCE 9/17/15)

Lotto Games

Johnson Siding in Rapid City sold a Hot Lotto Jackpot of over \$6 million in the Dec. 9 drawing. There were two Wild Card 2 jackpot winners in November. David DeJong of Sioux Falls won \$270,000 in the Nov. 11 drawing and Everett Felix Sr. of Sisseton won \$215,000 in the Nov. 23 drawing.

There have been eight non-jackpot high winners since Sept. 17. Powerball had a \$150,000 winner in Black Hawk and a \$100,000 winner in Spearfish. Hot Lotto had a \$90,006 in Sioux Falls as well as \$3,000 winners in Rapid City and Spearfish. Wild Card 2 had three \$6,000 winners in Sioux Falls. Mega Millions had a \$5,000 winner in Sioux Falls.

Instant Games

There were nineteen top prize winners of \$2,500 to \$500,000 in sixteen different games. The biggest winner was Cody Peterson of Sergeant Bluff, IA. He won \$500,000 on a Money, Money, Money ticket.

HOLIDAY ADVERTISING CAMPAIGN

The Lottery's first major advertising campaign with L&S is the *Stuff This* holiday campaign. This campaign is using the same elements as past campaigns – just in a different way. The point of sale (POS) campaign was deployed in mid-November. Radio ads in Rapid City, Sioux Falls, and Weather Eye (36 stations statewide) launched on Nov. 23, as well as a Facebook promotion with five drawings (one per week) to win \$100 to \$150 (for players club members) in holiday tickets. Cable television ads and digital billboards in Rapid City and Sioux Falls launched on Nov. 30 and network television ads will launch on Dec. 21.

NATIONAL COUNCIL ON PROBLEM GAMBLING HOLIDAY CAMPAIGN

The National Council on Problem Gambling holiday campaign is aimed at reminding people not to buy lottery tickets as gifts for minors. 46 lotteries from around the world are taking part this year. This is the 8th year for the campaign overall and the 6th year for SD Lottery. The campaign runs from Dec. 4 thru Dec. 30. Lottery has information posted on the website homepage and problem gambling page and is posting weekly on social media.

VIDEO LOTTERY ESMM SLIDE

A video lottery slide has been added to the ESMM slide show to remind customers that video lottery is available in many retailers and there is a list of those retailers on the Lottery's website.

FY2015 ANNUAL REPORT

Commissioners received hard copies of the FY2015 Annual Report and an electronic version is posted at lottery.sd.gov/about/reports. Lottery will provide members of the legislature with electronic copies once session begins and if there are requests for hard copies, –Lottery can provide them.

Commissioner Estes asked if the retailer gets a bonus for the \$6 million Hot Lotto jackpot sale. Sales Director Joe Willingham replied that a \$10,000 bonus will go to the retailer.

SALES REPORT

Sales Director Joe Willingham reported on the following:

Instant games are up 1.78%, \$9.98 million versus \$9.91 million, led by the \$20 game (Money, Money, Money), Big Money Cashword, \$10 games (Mega Fortune & \$100,000 No Tax) and the three holiday games (Tis The Season, Snow Days, and Holiday Magic).

Instant tickets coming out Feb. 1 are a multiplier family of games - 2X, 5X, and 10X the Cash.

The Play It Again *Lucky Leap* drawing scheduled for Feb. 29 has 33,079 tickets entered by 1,181 players, with 63% of them being female, 96% of them being SD residents and Cashword as the most entered game.

The Caesars second chance drawing for a trip for two to Las Vegas has over 8,262 entries to date, which is 7% of all non-winning tickets.

22,654 tickets have been entered (24% of all non-winners) in the Monopoly Millionaires' Club (MMC), with the drawing for three trips for two to Las Vegas to be held on Dec. 15. There will be one more MMC trip drawing with the winners participating in a non-televised version of the MMC game show.

The Lotto games are down 12.91%, at \$8.99 million versus \$10.32 million the previous year at this time.

- Powerball is down 5.7%, \$4.81 million versus \$5.10 million
- Mega Millions is down 11.7%, \$1.43 million versus \$1.62 million
- Hot Lotto is down 28%, \$1.14 million versus \$1.42 million
- Dakota Cash is down 31.6%, \$848,000 versus \$1.24 million
- Wild Card is down 3.2%, \$762,000 versus \$788,000

REVENUE PROJECTIONS

- Instant - \$5.57 million
- Lotto - \$6.54 million
- Video - \$102.87 million
- Total - \$114.98 million

Commissioner Hartford asked if lotto sales were gaining. Willingham responded that Powerball was gaining.

NEXT MEETING DATE – JANUARY 7, 2016

Commissioner Turbiville set the next meeting date for Thursday, Jan. 7, 2016, in Pierre at the Capitol building in LRC room 412.

Lingle invited everyone to come over to see the new Sioux Falls office/redemption center.

ADJOURNMENT

Commissioner Putnam moved to adjourn the meeting. Commissioner Hartford seconded. Motion carried. Chairman Turbiville adjourned the meeting at 12:33 p.m.